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RUEHCI/AMCONSUL KOLKATA PRIORITY 4259  
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SUBJECT: NEPAL: SPECIAL BUDGET BILL PASSED

Special Budget Bill Passed  
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11. (U) On July 15, the last day of the Nepali fiscal year, and in the absence of a new fiscal year budget, the Constituent Assembly (CA) passed a special Advance and Expenditure Bill (the Bill). The Bill authorizes new government expenditures of up to NRs 73.54 billion (USD 1.07 billion) and revenue collection from July 16. Due to the delay in the formation of a new government, the CA had no option but to pass the bill as a temporary measure to allow routine government operations. The economic policies contained in the last budget will continue until a new full-fledged budget is presented. The spending limit equals one-third of the estimated expenditures for the last fiscal year and includes an allocation of NRs 2.5 million (USD 36,764) for Nepal's first president and NRs 2 million (USD 29,411) for the vice president. When formed, the new government is expected to pass a complete fiscal year budget which will replace the special Bill.

Comment  
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12. (U) The Maoists, as the largest party in the new government, have thus far boycotted any serious work on a new fiscal budget with current Finance Minister, Dr. Ram Sharan Mahat (Nepali Congress.) However, in meetings with the IMF and other international donors, the Maoists have indicated that they believe they can increase revenues. Over time, as a broader tax base is built, revenue collection could be increased, but this process will likely be far too slow to support the new social plans the Maoists have promised to implement. Mahat is understandably concerned that too many new Maoist entitlement programs will jeopardize the budget and Nepal's relatively stable macro-economic position. Most of the revenue collected by the government of Nepal currently goes to funding continuing operations. However, there is some room for the Maoists to change spending, including trimming the budgets of state owned enterprises, raising taxes and holding government salaries at current levels. However, even with the Maoists' over optimistic revenue projections, the Nepal Oil Corporation's debt and continuing losses will make it difficult to balance any budget.  
BERRY